CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 1710	**Assembly Member Negrete McLeod (As amended 2/20/02)**
Position:	**Support**
Proponents:	**FACCC (Sponsor)**
Opponents:	**None known**

SUMMARY

Assembly Bill 1710 requires community college districts to offer Social Security coverage and an alternative retirement plan to all eligible part-time employees. Eligible employees could elect retirement coverage under either Social Security or the alternative plan selected by their employer, but not both. Alternative retirement plans would impose a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent. The bill also allows part-time classified community college employees not subject to mandatory membership in the California Public Employees Retirement System (CalPERS) to elect coverage under the Cash Balance (CB) Benefit Program, if the employer offers it as an alternative plan for such employees.

HISTORY

Chapter 364, Statutes of 2001 (AB 649—Negrete McLeod) was amended to delete provisions of the bill that would have required community college districts to offer an alternative retirement plan and Social Security to all their part-time employees. Instead, it ratified a Memorandum of Understanding for state employees in bargaining units five and eight. As amended, the bill does not affect California State Teachers' Retirement System (CalSTRS) programs.

P.L. 101-508 Omnibus Budget Reconciliation Act of 1990, among other things, mandates Social Security coverage for previously uncovered governmental employees, such as part-time, temporary, and seasonal (PST) employees, and allowed governmental retirement systems to offer coverage under their plans to these PST employees in lieu of Social Security.

Chapter 592, Statutes of 1995 (AB 1298—Ducheny) establishes the CB Benefit Program administered by CalSTRS to provide retirement benefits for certificated part-time public school employees.

CURRENT PRACTICE

Under federal law, part-time public employees must participate in Social Security if they are not participating in a qualified retirement plan. Of California's 72 community college districts, 24 offer only Social Security to their employees who work less than half-time, while the remaining 48 provide coverage under an alternative retirement plan or a combination of the two. Certificated employees in these districts also have the option to become members of the CalSTRS Defined Benefit (DB) Program, the primary CalSTRS retirement program.

Employees covered by Social Security pay a contribution of 6.2 percent of salary, with the employer paying an equal amount. Employers and employees who participate in alternative retirement plans contribute an amount that varies by district, however, federal law requires a minimum total contribution of 7.5 percent. The CalSTRS DB Program requires an employer contribution rate of 8.25 percent, a member contribution rate of 8 percent and a General Fund contribution of 4.475 percent.

The CalSTRS CB Benefit Program is an alternative retirement program for certificated public school employees who are hired to perform creditable service for less than 50 percent of the full-time equivalent of the position. School districts, community college districts and county offices of education may choose to provide the CB Benefit Program to their eligible employees in lieu of offering Social Security, or as a choice between Social Security and another alternative retirement plan. The CB Benefit Program has a contribution rate of four percent of salary for employers and four percent of salary for employees. Although different contribution rates under the CB Benefit Program may be negotiated through collective bargaining agreements, the employer must contribute a minimum of four percent of an employee's salary and the sum of the contributions must equal or exceed eight percent.

The CB Benefit Program provides a guaranteed rate of return set annually by the Teachers' Retirement Board, which may also declare additional earnings credits. Participating employees become vested in the CB Benefit Program immediately, and upon retirement may choose an annuity option if their account balance is at least $3,500. The CB Benefit Program also provides disability and death benefits, as well as refunds one year after a member's termination from creditable service.

Many certificated employees participate in CalSTRS' DB Program, but because of that program's vesting requirements, it can take 8 years or more for a part-time member to become eligible for DB Program benefits. As a result, for many employees, participating in an alternative retirement plan such as the CB Benefit Program is the most appropriate retirement plan choice because these programs provide immediate vesting, and participants benefit from the contributions made both by themselves and their employer. For others, participating in Social Security is the most appropriate choice for retirement benefits, because they are very close to qualifying for Social Security benefits, or their primary employment is covered by Social Security, which would be reduced if they were in some other retirement plan. By expanding the retirement options available to part-time community college employees, AB 649 permits such employees to participate in the retirement plan that best meets their needs.

Based on data reported to CalSTRS as of June 30, 2002, approximately 47,000 part-time faculty teach in California's community colleges. Of that total, approximately 45 percent are members of the DB Program, 15 percent participate in the CB Benefit Program, and 40 percent have coverage under either Social Security or an alternative retirement plan. Currently, 18 of the 72 community college districts offer the CB Benefit Program to their eligible employees. Within these 18 districts, approximately 20 to 30 percent of eligible CalSTRS DB Program members elect to join the CB Benefit Program, which at this time has approximately 12,000 active and inactive participants.

Generally, classified school employees hired to perform creditable service for less than 50 percent of the full-time equivalent for a position and full-time seasonal and temporary employees who work fewer than six months are excluded from membership in CalPERS unless a school district, community college district or county office of education formally resolves to provide such employees the opportunity to elect coverage under CalPERS. Classified employees who work less than half-time may elect coverage, if offered by their employer, under Social Security or an alternative retirement plan in lieu of Social Security. School employers must monitor their part-time classified employees' level of service and enroll them in CalPERS when they reach the threshold for mandatory membership.

DISCUSSION

Assembly Bill 1710:

- Requires community college districts to provide their eligible part-time employees retirement coverage under Social Security by July 1, 2004.

- Requires community college districts to provide their eligible part-time employees retirement coverage under an alternative retirement plan featuring specified notification requirements and a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent by July 1, 2003. Districts that on July 1, 2002 offer an alternative retirement plan and contribute less than 4 percent of salary would have until July 1, 2005 or the termination of the collective bargaining agreement, whichever is later, to pay the minimum 4 percent contribution rate.

- Allows part-time classified community college employees to participate in the CB Benefit Program, if their employer offers the program for such employees and they are not subject to membership in CalPERS.

- Requires eligible employees to elect participation in Social Security or any qualified retirement option offered by the district within 60 days of the effective date of the district board's resolution to provide a new retirement option, or within 60 days of their date of hire.

- Allows an employee's election to be revocable unless otherwise prohibited by state or federal law and allows an employee to change retirement plans once per year.

- Permits the employer to select Social Security or the alternative retirement plan for their part-time employees who do not make an election.

- Requires the Legislative Analyst's Office to report to the Legislature by April 1, 2003, an estimate of the net fiscal impact of the bill on employees, employers, General Fund contributions, and retirement benefits.

According to the sponsor, part-time employees of community college districts are not provided a meaningful opportunity to participate in a retirement plan suited to their needs. The sponsor believes that by requiring community colleges to offer coverage under Social Security and an alternative retirement plan in lieu of Social Security, employees will be better able to elect retirement coverage that best meets their individual needs, whether it is Social Security, the CalSTRS DB Program, or an alternative retirement plan such as the CB Benefit Program.

Currently, CalSTRS provides CB Benefit Program and DB Program election packets to district personnel who distribute them to all eligible employees. At that time, a 60-day election period for eligible employees begins. Employers offering the CB Benefit Program are required to provide information regarding the Program, the DB Program, Social Security and any available alternative retirement program to all eligible employees within 10 days of the effective date of the resolution or within 10 days following employment. They must also maintain a record of the employee's acknowledgement that they received this information. The CalPERS DB Program also requires employers to provide information to employees on their retirement options and election procedures. AB 1710 extends these notice and disclosure requirements to any alternative retirement plan a community college employer offers its part-time employees making an election, and requires the following information be furnished to each employee:

- The employee's rights, responsibilities under each plan, as well as the benefits payable.
- The retirement plan the employee will be placed in if they fail to make an election.
- Whether the retirement plan offered is a defined benefit, defined contribution, or hybrid plan.
- The benefits offered under each retirement plan.
- The contribution rates, vesting period and fees assessed by each plan, including who is responsible for paying the fees.
- Benefit distribution and portability terms.

Under most circumstances, an election to participate in the CB Benefit Program is currently only revocable if the participant is electing membership in the DB Program. AB 1710 allows eligible part-time employees to change coverage to another retirement plan no more than once per year. This change would permit a CB Benefit Program participant to elect to make future service creditable to any available retirement plan.

AB 1710 also changes the definition of creditable service under the CB Benefit Program to include service performed by classified community college employees excluded from mandatory CalPERS membership and requires classified employees to leave the CB Benefit Program when their base of employment changes to require mandatory membership in CalPERS. Community college districts offering the CB Benefit Program would only report to CalSTRS the service of classified employees who elect to participate in the CB Benefit Program, and would transmit the associated contributions to CalSTRS along with those of their credentialed employees who also elect the CB Benefit Program.

FISCAL IMPACT

Benefit Program Costs – This bill may result in an increase in the current level of contributions to the CB Benefit Program and a corresponding increase in CB Benefit Program benefit payments. CalSTRS expects a reduction in contributions to the DB Program, as well as a reduction in DB Program liabilities, to the extent that DB members employed in districts that would now offer Social Security, the CB Benefit Program or another alternative retirement plan, elect coverage under any of those other retirement options.

Approximately half of all part-time certificated employees in community colleges participate in the DB Program. Because the employer contribution rate is lower in Social Security, the CB Benefit Program, and other alternative retirement plans than in the DB Program, contributions made by community college districts will decrease as certificated employees leave the DB Program these other retirement options. Since the General Fund contribution to the DB Program is calculated as a percentage of the total creditable compensation earned by members of the DB Program with no corresponding contribution to the CB Benefit Program or other alternative plans, the General Fund contribution would decrease as eligible DB members elect to participate in the CB Benefit Program and other alternative retirement plans.

CalSTRS' experience in providing the CB Benefit Program to community college districts indicates that 20 percent to 30 percent of the eligible DB Program members elect to join the CB Benefit Program when it is offered to them. By requiring that districts offer an alternative retirement plan that requires them to contribute 4 percent, we would anticipate that a significant number of members will elect to participate in the alternative plan, rather than Social Security, which requires a 6.2 percent employer contribution, or the DB program, which requires an 8.25 percent contribution, particularly if their current alternative plan requires them to contribute 7.5 percent of salary.

If 25 percent of eligible employees in districts that offer the DB Program and Social Security elect an alternative retirement plan, and 5 percent of eligible employees in districts that offer the DB Program and an alternative retirement program elect Social Security, staff estimates that the net cost of AB 1710 on districts would be less than $15,000 annually. In addition, certificated employees would save over $1 million per year in reduced contributions, and the General Fund would realize savings of almost $900,000 annually from reduced contributions to CalSTRS retirement programs. While the net effect of AB 1710 on community college districts is dependent on how their employees behave, any net cost is likely to be relatively minor. Regardless of the choices that certificated employees make under AB 1710, there is no state cost, and a likely savings of as much as $900,000 annually.

Administrative Costs – Additional resources to handle a possible increase in workload will be determined after the redesign of the CB Benefit Program database and other programmatic efficiencies are completed. In addition, AB 1710 would require an initial increase in employee-election activities requiring one-time printing costs for election pamphlets and other materials of up to $50,000.

BOARD POSITION

Support. This measure provides community college employees who work less than half-time the opportunity to participate in a retirement program tailored to their needs.